COVID-19 Effects on NFP Financial Statements and Disclosures

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Whether you were in the middle of your annual audit when COVID-19 started making waves or will soon be embarking on your next audit, you can expect that there will an impact on your financial statements and disclosures. Here is a list of some of the disclosures you may want to start taking a look at:

Liquidity and availability

This disclosure was recently added in the last year or so with the implementation of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The disclosure was incorporated to increase transparency and clear up potential misunderstandings about how restrictions or limits imposed by donors, grantors, laws, contracts and governing boards affect the organization's liquidity. In light of recent economic events, this disclosure could become increasingly important as its goal is to highlight qualitative and quantitative information about the resources available to meet cash needs for general expenditures over the next year. It is important that the organization revisit policies regarding board restricted net assets to ensure that those polices are properly disclosed. In addition, the organization should carefully review the qualitative information in this disclosure and make sure it is thorough and appropriately reflects the organization’s strategy for managing financial resources.

Endowments

Another change to disclosures under ASU 2016-14 is the way that underwater endowment funds are disclosed. Underwater endowments are defined by FASB as: “A donor-restricted fund for which the fair value of the fund at the reporting date is less than either the original gift amount or the amount required to be maintained by the donor or by law that extends donor restrictions.” With the significant drop in value of investments, the organization’s endowments may now be underwater. In this instance, the organization is required to disclose (1) the organization’s policy, and any actions taken during the period, concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions. It will be important for your organization to prepare an analysis of endowments to determine if an underwater situation exists, and to consult the organization’s policy regarding appropriation in this situation.

Net assets with donor restrictions

Recent events may have made it necessary for your organization to contact donors and request that restrictions on funds be lifted or modified. If this was the case, it is recommended that any changes to restrictions be well documented and the necessary changes be made to the donor restricted disclosures in the financial statements.

Subsequent events

Subsequent event disclosures provide the reader with information about conditions or additional evidence that exists after the financial statement date, but prior to the date the financial statements are available to be issued. Particularly if you have a December 31 year end, and have not yet issued your 2019 audited financial statements, you will want consider adding a subsequent event disclosure to describe the impacts that COVID-19 has made on your organization. When drafting this disclosure, it is important to make a list of all the various ways the organization has been impacted. This list will give you a good starting point. Things to consider should include declines in contributions or revenues from services/goods provided, delays in grant funding, receipt of loans or application of other provisions under the CARES Act such as payroll tax deferrals, new lines of credit and other types of new loans received, and declines in the fair value of assets. Subsequent event disclosures should disclose the nature of the event and an estimate of the financial effect, or a statement that such an estimate cannot be made.

Going concern

Each organization is required to evaluate their ability to continue as a going concern within one year after the date the financial statements are available to be issued. Recent events may have created substantial doubt about the organization's ability to continue as a going concern if there are indications that the organization will be unable to meet its obligations as they become due. The ability to continue as a going concern is affected by many factors, and the organization will want to carefully review whether going concern indications are present and document their plans to alleviate that substantial doubt. Likely, your organization has prepared budgets or cash flow analyses for several different scenarios. These documents will provide a great place to start your analysis and your auditor will likely want to review the various budget and cash flow plans.

Each organization's disclosures will be modified differently, as each organization has been uniquely impacted by the pandemic. We recommend that you discuss all disclosures with your audit team, as they will be able to provide you with resources and best practices for drafting disclosures. In this world where information is changing daily, or even hourly, it is important that financial statement disclosures are accurate through the date of the auditor's report.

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